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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS EASTERN GROUP
AND FOR CERTAIN RELATED
APPROVAL.

Docket No. W-01445A-02-0619

Arizona Corporation Commission
DOCKETED

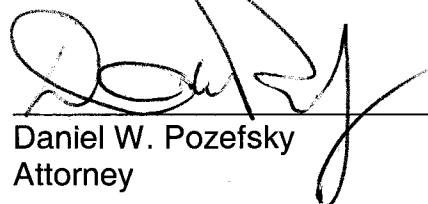
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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimony Summaries of Timothy J. Coley and William A. Rigsby in the above-referenced matter.

RESPECTFULLY SUBMITTED this 18th day of September, 2003.


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Attorney

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 18th day
3 of September, 2003 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 18th day of September, 2003
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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619

TESTIMONY SUMMARY
OF
TIMOTHY J. COLEY

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 18, 2003

ARIZONA WATER COMPANY
DOCKET NO. W-1445A-02-0619
SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY

The following is a summary of the significant issues set forth in the direct testimony of RUCO witness Timothy J. Coley, on Arizona Water Company's ("Arizona Water" or the "Company") application which requests permanent rate increases for each of the eight water systems that comprise the Company's Eastern Group. A full discussion of these issues and the underlying theory and rationales for Mr. Coley's recommendations for the various systems included in the Eastern Group are contained in the referenced document. Mr. Coley's testimony on rate base, operating revenues and operating expenses focuses on the Eastern Group's Oracle, San Manuel, Sierra Vista and Winkelman systems. The significant issues associated with the case are as follows:

RATE BASE:

Mr. Coley is recommending the following revised¹ rate base amounts:

Oracle	\$2,513,634
San Manuel	\$ 746,994
Sierra Vista	\$2,256,646
Winkelman	\$ 252,049

¹ Revisions to Mr. Coley's recommended revenue requirements are reflected as part of RUCO's surrebuttal filing. Revisions were necessary to correct a few minor computational errors.

REVENUE REQUIREMENTS:

Mr. Coley is recommending the following revised increases/decreases in the levels of revenue:

Oracle	-\$ 19,785
San Manuel	\$334,908
Sierra Vista	\$ 85,692
Winkelman	\$ 18,386

OPERATING EXPENSES:

Based on his adjustments to test year expenses to the four systems included in his testimony, Mr. Coley is recommending the following revised levels of operating expense which will provide each of the systems in the Eastern Group with an 8.68% rate of return on the rate base amounts recommended by Mr. Coley:

Oracle	\$693,099
San Manuel	\$779,808
Sierra Vista	\$882,731
Winkelman	\$ 86,053

SPECIFIC ISSUES

Included in Mr. Coley's testimony on his recommended rate base, operating revenue and operating expenses for the Oracle, San Manuel, Sierra Vista and

Winkelman systems, Mr. Coley's direct testimony also contains discussions on the following specific issues:

Working Capital – Mr. Coley explains why the Commission should adopt RUCO's adjustment to cash working capital which corrects the number of lead/lag days from the 2.52 days used by Arizona Water to the 61.95 days used by RUCO in determining the level of cash working capital required for the Company's federal and state income tax expense.

Annualize Revenues and Expense – Mr. Coley provides a discussion on the method that he used to annualize revenues and expenses and explains why the Commission should adopt RUCO's revenue and expense annualization adjustment for each of the eight systems in the Company's Eastern Group.

MAP Surcharge Revenue – Mr. Coley is recommending that the Commission adopt both his and RUCO witness Rigsby's adjustments to Monitoring Assistance Program ("MAP") surcharge revenues in order to insure that these pass-through charges are not included in the Company's base rates.

Property Taxes – Mr. Coley is recommending that the Commission adopt both his and RUCO witness William A. Rigsby's adjustments to property tax expense, which were calculated by using the formula developed by the Arizona Department of Revenue.

Income Taxes – Mr. Coley is recommending that the Commission adopt both his and RUCO witness William A. Rigsby's adjustments to income tax expense.

San Manuel Purchased Water Expense – Mr. Coley recommends that the Commission adopt his recommended level of purchased water expense in the

Company's base rates. His direct testimony includes a discussion on the water purchase agreement between the Company and BHP Copper, which has increased the rates on water that Arizona Water purchases for the Company's San Manuel customers.

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619

TESTIMONY SUMMARY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 18, 2003

ARIZONA WATER COMPANY
DOCKET NO. W-1445A-02-0619
SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, on Arizona Water Company's ("Arizona Water" or the "Company") application which requests permanent rate increases for each of the eight water systems that comprise the Company's Eastern Group. A full discussion of these issues and the underlying theory and rationales for Mr. Rigsby's recommendations for the various systems included in the Eastern Group are contained in the referenced documents. Mr. Rigsby's testimony on rate base, operating revenues and operating expenses focuses on the Eastern Group's Apache Junction, Bisbee, Miami and Superior systems. His recommendations on rate design apply to all eight systems of the Eastern Group (which also includes the Oracle, San Manuel, Sierra Vista and Winkelman systems). In addition, Mr. Rigsby has filed, under separate cover, direct testimony and surrebuttal testimony on cost of capital issues pertaining to the instant case. His cost of capital analysis was performed on a companywide basis. The significant issues associated with the case are as follows:

RATE BASE:

Mr. Rigsby is recommending the following revised¹ rate base amounts:

Apache Junction	\$19,793,353
Bisbee	\$ 3,603,096

¹ Revisions to Mr. Rigsby's recommended revenue requirements are reflected as part of RUCO's surrebuttal filing. Revisions were necessary to correct a few minor computational errors.

Miami	\$ 3,600,868
Superior	\$ 2,471,296

REVENUE REQUIREMENTS:

Mr. Rigsby is recommending the following revised increases/decreases in the levels of revenue:

Apache Junction	-\$ 621,398
Bisbee	\$ 325,943
Miami	\$ 247,130
Superior	\$ 277,615

OPERATING EXPENSES:

Based on his adjustments to test year expenses to the four systems included in his testimony, Mr. Rigsby is recommending the following revised levels of operating expense which will provide each of the systems in the Eastern Group with an 8.68% rate of return on the rate base amounts recommended by Mr. Rigsby:

Apache Junction	\$7,271,985
Bisbee	\$1,326,245
Miami	\$1,438,124
Superior	\$ 766,326

SPECIFIC ISSUES

Included in Mr. Rigsby's testimony on his recommended rate base, operating revenue and operating expenses for the Apache Junction, Bisbee, Miami and Superior systems, Mr. Rigsby's direct testimony and surrebuttal testimony also contain discussions on the following specific issues:

Proper Matching of Rate Base and Operating Expense Elements – Mr. Rigsby is recommending that the Commission adopt both his and RUCO witness Timothy J. Coley's adjustments to rate base, which properly match all of the ratemaking elements (including post-test year additions financed by advances and contributions in aid of construction) with both the actual, and RUCO adjusted, operating expenses associated with the post-test year additions being proposed by the Company in this case.

Recovery of Deferred CAP charges for the Apache Junction system – Mr. Rigsby is recommending that the Company be permitted to recover \$645,207 in deferred Central Arizona Project ("CAP") charges incurred as of December 31, 2002. Mr. Rigsby is also recommending that the Company be permitted to recover the aforementioned level of deferred charges over a period of ten years.

Pinal Creek Group – Mr. Rigsby's unredacted direct and surrebuttal testimony contains his recommendations regarding the ratemaking treatment of issues related to the Pinal Creek Group and the Company's Miami System.

RATE DESIGN AND RATE CONSOLIDATION:

In order to achieve RUCO's recommended level of water sales, Mr. Rigsby is recommending a single tier rate design for all sizes of water meters which is similar to the one being proposed by the Company. Mr. Rigsby also recommends that the Commission reject the Company's proposed rate consolidation plan for the Apache Junction and Superior systems.

COST OF CAPITAL:

Cost of Equity Capital – Mr. Rigsby is recommending a 9.18% cost of equity capital. The 9.18% figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies.

Cost of Long-Term Debt – Mr. Rigsby is recommending an 8.44% cost of long-term debt. This 8.44% figure is based on his review of the Company's calculation of the costs associated with Arizona Water's line of credit with a major money center bank and the Company's bond issuances that mature between 2006 and 2031.

Cost of Short-Term Debt – Mr. Rigsby is recommending a 4.00% cost of short-term debt. This 4.00% figure is based on the requirements of Decision No. 64996, dated June 26, 2002, which ordered that the interest rate on the Company's short-term line of credit was not to exceed the lender's reference rate minus 25 basis points.

Weighted Cost of Capital – Based on the results of his capital structure, cost of equity, and debt analyses, Mr. Rigsby is recommending an 8.68% cost of capital for Arizona Water. This figure represents the weighted cost of the Company's long-term debt, short-term debt and common equity.